Lead Left Interview – Robert A. Hamwee (Part 2)

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This week we continue our conversation with Robert A. Hamwee, president and chief executive officer of New Mountain Finance Corp. (NMFC). NMFC is a public BDC investing in debt securities in all levels of the capital structure, primarily focusing on middle market companies with Ebitda between $20-200 million.

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The Lead Left: Could you give our readers some metrics regarding New Mountain?

Robert Hamwee: Sure. In round numbers, we have approximately $15 billion in assets, of which $10 billion is related to private equity, $3 billion for our hedge fund, and $2 billion of credit. Overall we have about 100 people, including 60 investment professionals – all in New York.

TLL: And the firm has been around for about fifteen years.

RH: Yes, it was foundedRHRH by Steve Klinsky in 1999.

TLL: How do you position New Mountain competitively?

RH: What everything flows back to is having great knowledge of our businesses. That allows us to hopefully overperform, over time. We're not doing 5% yielding deals – the math just doesn't work – but there are plenty of opportunities in the 7-12% range. We're not trying to position ourselves as good in all sectors.

TLL: Do you have a goal in terms of AUM to grow to?

RH: We're very comfortable doing what we're doing. We're consciously not developing a full tool kit as some others, in the space, have. Do we need to add incremental products? We're comfortable with the rate the BDC has allowed us to grow. We still have a decent runway.

Having said that, last year we raised the Leveraged Loan Fund that's designed for companies we like, but in the broadly syndicated loan space. We created a 3x leveraged, $360 million fund that allows us to make the lower yield work for us. I would call that an expansion of the box, rather than an incremental box.

TLL: Rob, public BDC valuations have gotten pummeled of late. What's going on there?

RH: We don't burn many calories worrying about things out of our control. It just makes sense to make good investments, don't issue equity below book value, and stay fully levered. We just do what we're good at.

TLL: Would you consider raising capital via CLO issuance?

RH: The problem is, by the nature of rated entities requiring diversity it takes us away from our core competency. That's also the case with asset aggregation for its own sake. Frankly, the nature of Moody's diversification tests doesn't work for our industry focus.

TLL: Are there any macro themes you consider in your investing strategy?

RH: What we *have* done is be flexible when the market gives us something like high-yield. We'll take advantage of 7% deals that are trading at 10%, for example, either in the primary or secondary markets. Of course, 2008 originations were *all* secondary. In the fall of that year we took a $300 million allocation from New Mountain and built a portfolio. The world reflated quickly, but we've retained the capability and expertise.

TLL: What's a comfortable hold level for you?

RH: Probably 2-3% of our $1.5 billion AUM, which amounts to around $30-50 million.

TLL: As CEO of a BDC, what do you worry about?

RH: It's always about company level credits. And also paying close attention to our liability structure. We have a non-mark-to-market Wells Fargo facility as well as an SBA facility.

TLL: Any lessons learned over the past few years you'd like to share? Any problems?

RH: Randy, I would say anytime there have been issues, and there weren't many, it's been when we went outside our core. I would tell you a positive lesson: the industrial logic of leveraging off our private equity expertise is a good model. It does require a special culture centered on teamwork and information sharing. But everybody views themselves as having a dual mandate. And they've all got the right personalities for that.

TLL: Finally, Rob, what's been your biggest surprise?

RH: No question, the energy fiasco. If you had told me that oil would be consistently below the $50/barrel level, I would not have believed it. That will have far-reaching consequences.

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